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INDUSTRIAL INSURANCE

IV

THE INSURANCE OF THE FRATERNAL SOCIETIES

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These societies of the United States are similar in many respects to the Friendly Societies of Great Britain, but they are not confined, as in the mother country with its established social distinctions, to the so-called working classes. Indeed there is a strong inducement for professional persons, especially those who seek clients or votes, to belong to one or more strong fraternal associations for the acquaintance and influence which membership gives.

The characteristics which distinguish these brotherhoods are the following: (1) Each local lodge belongs to a system of similar lodges with common regulations. (2) Each lodge is an independent society for local purposes, and yet the rules which govern it are made by a legislative body composed of delegated representatives elected by the lodges, and there is a central administration by officials chosen by the federation. (3) Each fraternal organization has its own peculiar ceremonies, usually of a religious character, which gives expression to the sympathetic bonds of the members. The secret pass-words and signs and solemn forms of initiation provoke curiosity and attract new members. (4) Brotherly assistance is rendered to sick or helpless members. Many of the services rendered by a lodge to its members could not be formally prescribed in a contract nor reported in statistical tables. (5) All lodges pay something or render some form of aid to members who are wholly or partially unable to work. (6) Death benefits are paid to the bereaved family of a member who has died, or to his legal heirs. It is in this last point that the fraternal societies discover their chief social function, and it is this fact which makes them competitors of the ordinary insurance companies which carry on business for

profit. The strife between them is unceasing and often bitter, even if veiled under formal courtesy. If the financial basis of a fraternal society is sound it can continue to exist, even when the ceremonies and sociable features are lightly esteemed and are neglected; but if the administration is defective, the assessments unduly frequent and high, the economic burden excessive, then the society goes to the wall in spite of all its sentimental sympathies and its impressive ritual. (*Proceedings of the Nineteenth Annual Meeting of the National Fraternal Congress*, p. 445.)

It is not easy to discover how large a proportion of the members of these fraternal societies belong to the wage-earning group. Statistical material for a judgment is wanting and the opinions of representative leaders vary according to their personal experience and observation. In some lodges the workingmen are more numerous than in others. Inquiries made among almoners of charity, friendly visitors, residents of settlements, collectors for the "industrial insurance companies," and officials of the fraternal societies themselves furnish evidence that the unskilled and low-paid workingmen do not constitute any large part of the membership, but that these are more likely to purchase, at high rates, a little claim on burial benefits from the industrial companies and to secure an imperfect provision for sickness in some club or mutual aid society with small dues. In the larger cities and in certain smaller industrial centers it is probable that the Catholic fraternal orders consist almost entirely of wage earners. The most important single investigation, so far as known to the writer, is that of the Bureau of Labor Statistics of Connecticut.¹

*Activity of the Fraternal Societies.*²—In the year 1905 there were said to be 168 societies of the kind under consideration in the United States. The first to be established dated from October 1, 1868, the youngest from September 30, 1904. How many in the meantime have dissolved it

¹ *Report of Bureau of Labor Statistics of Connecticut*, 1891; Article of E. W. Bemis in *Universal Cyclopedia*, Vol. IV, p. 521.

² *Statistics of Fraternal Societies*, 1905, Rochester, N. Y.

Occupations	Societies with Per cent. Branches	Societies without Branches—Per cent.
In business.....	21.16	40.29
In professions	5.33	14.74
Well-paid mechanics.....	38.65	27.37
Lower paid mechanics	20.28	6.35
Clerks	11.20	11.25
Farmers	0.66
Housewives	2.72
Total per cent.....	100.00	100.00

is difficult to discover. On January 1, 1905, there were 87,758 lodges with a total membership of 5,111,480 persons, of whom 232,068 were "social members" who had no claim upon the life-insurance benefits of the lodges, while the great majority (4,879,412) were in the full enjoyment of these rights. During the year 1904 the number of lodges increased about 3,860, and the membership 137,049, and yet this very year was for all forms of life insurance organizations in the United States a year of unrest, suspicion, and difficulties. The insurance in force, at least on the face of contracts, was on January 1, 1905, \$6,665,-141.251. The expenditures during the year 1904 were \$64,-322,892. The assets on January 1, 1905, were stated to be \$51,-465,430.00, and the liabilities \$9,619,089.00. The total expenditures of all fraternal societies since their foundation, chiefly for death benefits, had been \$787,427,445; and in addition to this 13 societies which offer sick insurance had paid out for this purpose \$312,514,193. The total expenditures of all societies for all purposes had been since their beginning \$1,099,941,638.³

Costs of administration.—It is the boast of the fraternal

³ A national fraternal sanatorium association has been formed to provide for the treatment of members afflicted with tuberculosis. They have secured property in New Mexico valued at \$1,000,000, and an effort is made to endow and support it. The National Fraternal Congress and the Associated Fraternities of America have voted approval of the enterprise. It is affirmed that over \$9,000,-000 were paid out in one year for those who had died of consumption, and it is believed that by curing and preventing the disease the cost of sick benefits and premiums for life insurance can be substantially reduced. The cost for caring for patients will be from \$7 to \$10 per week. The legislature of Illinois, in 1907, made it legal for fraternal societies to establish and maintain such sanatoria.

orders that their expenses of administration have been kept remarkably low. A comparison has been drawn between 25 of the most important insurance corporations with 25 of the largest fraternal. The policies of the 25 insurance companies had a value, on December 31, 1904, of \$8,541,899,611, while the smaller but more numerous policies of the fraternal had a face value of \$5,210,016,008. The costs of administration of the 25 insurance companies was 18.3 per cent. of the receipts, while the corresponding costs of the fraternal amounted to only 8.4 per cent. The representatives of the fraternal offer an explanation of the difference. In the first place the salaries of the officers of the fraternal are very low, while those of officials of the great companies are, in many cases, notoriously extravagant. In the case of the companies every policy holder has been won at considerable expense for commissions of solicitors, while in the lodges every member is a solicitor who works quite zealously without pay. Further the meetings of the lodges afford a method of collecting the premiums and dues without great expense.

National organizations.—The fraternal societies have federated themselves in two large groups called the National Fraternal Congress and the Associated Fraternities of America. The purpose of these federations is to discuss the common interests of the lodges, to explain the technical problems of insurance, and to influence legislation. The Catholic Fraternal Benefit Societies follow the same economic principles as the others, as explained above, and their statistics are included with those of other similar organizations. Naturally their members are of the Catholic church and many of the priests are very active in promoting the societies in their parishes. These Catholic orders have paid out during the past twenty-five years over \$65,000,000 in death and sickness benefits, and they have now over 400,000 members.

Objections and criticisms.—The Fraternal Benefit Societies are severely criticized by actuaries and insurance specialists in the United States, especially in cases where our societies have refused to learn from the history of the older English Friendly Societies and to reform their plans in accordance with experience. The

more familiar criticisms are the following: The premiums of the older members are in comparison with those of younger members relatively too low to cover the risk, and therefore the younger members must carry more than their share of the burden. Ordinarily the fraternalists have declined to provide reserve funds or have very inadequate reserves, and so the benefits must be paid out of assessments levied at or near the time of ripened claims. In consequence of these defects the rates of assessments rise gradually, and therefore the younger members, who must carry more than their proper share of the cost, fall away from membership, only older members remain; the burden becomes unbearable, and the brotherhood becomes bankrupt, unable to fulfil its promises or at least the expectations of the members. Once the older men are out of a fraternal society they find themselves too far advanced in years to buy insurance in regular companies, or the rates are so high as to be prohibitive. Furthermore, it is claimed by the representatives of the ordinary insurance companies that the salaries of the officials are so low that competent and skilful men will not accept the responsible administrative offices, and that, under imperfect management, the funds of the fraternal societies will be dissipated. All these arguments are used in the competition of the insurance companies to break down the influence of the fraternalists.

On the other side the importance and value of the fraternalists may be defended by the following arguments: The fraternalists have already demonstrated the general and growing interest of wage earners and persons of low salaries in industrial insurance; and the fraternal societies adapt themselves to the needs of the workmen with inadequate income. In spite of their defects, which may be acknowledged, these associations have already paid out enormous sums for sickness and death benefits. It is affirmed that in these societies men of ability can be found to administer the affairs of the insurance departments with fidelity and success, without having to pay them extravagant salaries. Naturally no one can claim that the administration is equally skilful and effective in all societies alike.

The problem of improving the working of the Fraternal Bene-

fit Societies has engaged general attention and called forth much discussion. How may the fraternal be made useful in forwarding industrial insurance? It is obvious that fraternal societies are not adapted to furnish accident insurance, at least without important modifications of present laws. It seems wiser to approach this matter from the side of the lawmaking employers liable for injuries suffered by the employees. The doctrine of the *risque professionnel* places the responsibility for compensation first of all on the men who direct and control industry, and therefore society ought not to require the workmen to take the initiative in this field.

In the field of sickness insurance the lodges have achieved considerable success, and they seem well adapted to this purpose. As already indicated thirteen of the fraternal have paid since their organization over \$312,514,193 for sick benefits; while the other societies have their sickness funds and aid families of members in case of illness and need. Evidently it should not be difficult to find a place for such associations in a system of compulsory insurance, if the time comes when society is ready for that measure. Such organizations have been utilized in Germany for just this purpose.

Some of the fraternal have sought to establish old-age and invalid insurance, but this is not general. The tendencies and results have not yet been clearly revealed. The fraternal are very similar to the French "mutualists," and in France the mutualist societies are carefully included in the government schemes of provision for old-age pensions. Whether the state governments merely regulate, subsidize, or compel insurance for old age and invalidism they may find ready to hand an administrative machinery which works at low cost and has roots in popular sympathies.

It is in the sphere of "life insurance" that the fraternal societies of the United States have thus far found their principal mission. As shown already in the statistics the fraternal administer their insurance schemes at very low cost—8.4 per cent. of premiums, as compared with 30 to 40 per cent. of the industrial insurance companies which do business among the workingmen.

This fact has awakened the hope in many minds that in the near future the workingmen will be able to provide for themselves reliable life insurance in societies which rest on the principle of mutuality and self-government.

State regulation.—It seems to be beyond reasonable question that the interest of the members and the future usefulness of the fraternal societies demand a degree of state intervention and control. The argument for this position is clear and strong. The vast majority of the members have not and cannot be expected to have expert knowledge of the business of life insurance, and the officers themselves are rarely actuaries of repute. The strength of the fraternal association lies in a certain sympathy, even sentimentality, which binds the members together in strong bonds, but which obscures the judgment of reality and hard mathematical facts, and is inconsistent with the necessary cold-blooded calculation and business direction which assures the wise management of funds. It is almost universally conceded that the other life insurance companies must be placed under very rigid control by the state, just as national banks are supervised and made to conform to regulations in the public interest; but it would seem that the majority of the members of the brotherhoods have made themselves believe that the law of gravity, the multiplication table, and economic forces and laws may be successfully set at defiance if only men love each other enough; and that such commonplace matters as tables of mortality and interest rates are applicable only to the insurance of rich men. Not seldom have state commissioners of insurance and actuaries who are true friends of the fraternalists given to the public and to the societies the necessary information and suggested the protective measures which must be taken in order to provide a solid foundation for their insurance methods. But such suggestions have only too generally been regarded with suspicion and hostility, and there has been a constant antagonism between the better and more outspoken commissioners of states and the representatives of the societies. When it was shown that the reserve funds and premium rates were inadequate and that the methods of administration must lead to bankruptcy, this was

taken, and often is still taken, to be a proof that the men who give timely warning are enemies of fraternal and perhaps in the pay of the regular life insurance companies.⁴ On the other hand

MORTALITY TABLES
DEATHS EXPECTED PER 1,000 MEMBERS

Age	Table of National Fraternal Congress	Actuaries Table	American Experience Table
20.....	5.00	7.29	7.81
21.....	5.04	7.38	7.86
22.....	5.07	7.46	7.91
23.....	5.11	7.56	7.96
24.....	5.15	7.67	8.01
25.....	5.20	7.77	8.07
26.....	5.26	7.89	8.13
27.....	5.32	8.01	8.20
28.....	5.39	8.14	8.26
29.....	5.47	8.28	8.35
30.....	5.55	8.43	8.43
31.....	5.65	8.58	8.51
32.....	5.75	8.75	8.61
33.....	5.87	8.92	8.72
34.....	6.00	9.10	8.83
35.....	6.15	9.29	8.95
36.....	6.31	9.49	9.09
37.....	6.49	9.69	9.23
38.....	6.70	9.91	9.41
39.....	6.92	10.13	9.59
40.....	7.17	10.36	9.79
41.....	7.45	10.61	10.01
42.....	7.77	10.89	10.25
43.....	8.11	11.25	10.52
44.....	8.48	11.70	10.83
45.....	8.87	12.21	11.16
46.....	9.29	12.84	11.56
47.....	9.75	13.52	12.00
48.....	10.27	14.26	12.51
49.....	10.82	15.40*
50.....	11.44	15.94	13.78
55.....	15.71	21.66	18.57
60.....	22.75	30.34	26.69
65.....	34.39	44.08	40.13
70.....	53.65	64.93	61.99
75.....	85.48	95.56	94.37
79.....	125.35	130.07	131.73

*Error in table.

the state commissioners have denied hostility and declare that they desire nothing more than the essential basis for sound and

⁴ The grounds for rejecting the calculations of the fraternal societies are partly found in the discrepancies apparent in the mortality tables of the fraternal as compared with those used by insurance companies.

enduring insurance. An example may be cited. The commissioner of Massachusetts said in his report for 1904:

Fraternal insurance has come to stay. It should aim to get upon a basis that its results will be only good. . . . Why then should not this fraternal question be taken up and considered reasonably and without prejudice, for the purpose of securing through the legislatures a uniform measure of as wide application as possible, which will at least prevent the organization of new companies on lines which have been demonstrated over and over again to be faulty, and give the companies now in existence the benefit of a uniform code in all the states?⁵

The Insurance Commissioner of North Carolina said in 1905 (*Report* p. xiv):

In the opinion of the Commissioner it would be best that all associations and orders doing business in this state should be required to have and keep a certain number of members and a certain amount of business, or not be allowed to commence or continue business. It is not best, or for the protection of our people, that associations of this character should be allowed to organize with less than a dozen men, and no assets or capital or responsibility back of them.

The necessity of further legislation in order to prevent the entire ruin of the fraternal movement has of late been recognized quite generally by the enlightened men in the societies and by their advisers. Such facts as the following have startled many into action and already led to a certain improvement and reorganization. It appears that out of 114 fraternal benefit societies only 19 have accepted even the premium rates of the National Fraternal Congress; and of these 19 associations not one has adopted a rate which will cover completely the costs of administration and meet fully the claims of the beneficiaries. A report made to the National Fraternal Congress in 1906 made clear that during the year 1905, with a membership of 3,634,467, the increase in membership was only 58,344. Eighteen of the most important fraternal societies gained during 1905 only 96,877 new members and lost 106,373. The attorney and counsellor of one of the great societies has expressed very strongly the judgment of the competent leaders in favor of suitable state control and disclosed the nature of the crisis.

⁵ *Report* for 1904, Part II, pp. xx.

I do not believe that it is safe that the Fraternal Beneficiary Societies be left longer without proper legislative guidance in the matter of rates. I am sure that the officers and managers of fraternal societies recognize that relief must come soon, and that it must come from legislative enactments. It is nearly impossible for one or a few societies to adopt and apply adequate rates so long as other societies do not do so. There are a sufficiently large number of societies who do not yet appreciate the necessity for adequate rates to make it impossible to see a day in the future when all of the societies will have placed themselves upon a permanent basis.

In order to meet the needs and demands of the members of these societies, the legislatures must designate more clearly the character of contracts that may be made, and benefits granted by these societies than they have done in the past. It is essential to their success and perpetuity not only that they be required to accumulate adequate reserves upon level life contracts, but that provision be made whereby reserves are not appropriated to the benefit of persistent members, as in the past, but that a member who pays the reserve accumulation, shall recognize that he has an interest in it and that it shall be held sacred for the maturity of his certificate.

I recognize that this will be a new departure in fraternalism, because the theory of rates in these societies has been based upon an agreement between the members that, even if an accumulation of reserve was made, the withdrawing or lapsing member should leave his interest in the accumulation in order that persistent members might have insurance afforded them at less than actual cost.

It seems probable that the resolutions passed on October 4, 1906, by the National Convention of Insurance Commissioners indicate the essential points of the reform demanded by the enlightened friends of the fraternal organizations.

The laws governing fraternal societies should provide that where the hope of level rate is held out to the members, that such rates should be less than those shown as necessary by the American Experience Table of Mortality with interest at the rate of 4 per cent. per annum. This will work no hardship upon the members, for any excess can be returned each year by an annual accounting, thus guaranteeing that they will not have to pay more than the actual cost of their insurance while providing for the hope and permanency of the association. . . . We urge the enactment of laws providing as follows: (1) No society shall be organized in or admitted to any state after July 1, 1907, that does not collect adequate rates, according to the above-mentioned standard. (2) All societies doing business in any state should collect adequate rates from new members admitted after January 1, 1909. (3) Members paying inadequate rates should be placed in a class by themselves, but should be permitted to transfer to the adequate

rate class at attained ages, without expense or medical examination, within two years, and the funds of the two classes should be kept separate.⁶

The opinion of M. M. Dawson, the actuary, is worth citing. He believes that the reorganization now going on in the fraternal societies is sincere; that the leaders are in touch with actuaries and will ultimately be supported by the members; that the administration is honest and economical; that the medical selection is good; that the rates are being adjusted to the losses and the necessary reserves are being provided; that after the shock of reorganization the numbers will increase. (*Annals of American Academy of Political and Social Science*, 1905, pp. 128 ff.)

The above report was signed by the Insurance Commissioners of Illinois, Pennsylvania, Maine, Kentucky, Mississippi, New Jersey, and Wisconsin, composing the Committee on Fraternal Insurance; and the report was unanimously adopted.

A rather intensive study of the working of fraternal lodges in the anthracite coal region has been made by Mr. P. Roberts (*Anthracite Coal Communities*, pp. 259 f.), and from that account certain illustrations are taken. In this region are found representatives of most of the countries of Europe. Roberts says that in the cities and towns there are some brotherhoods whose chief object is the cultivation of sociability, and the members of such lodges belong to the comfortable classes and to the professional people. But the brotherhoods of miners pursue a more practical and utilitarian object and their principal purpose is to provide sick benefits and life insurance for the protection of their families. These miners are not rich enough to spend much money on purely sociable organizations. They have a special repugnance to being buried at public cost, and they pay their dues regularly in order to be sure of the death benefit when it is needed. Beyond these two emergencies the average miner does not give himself great anxiety. An experienced insurance agent acquainted with these people estimates that 75 per cent. of the workmen pay insurance premiums, about 25 per cent. paying sick insurance premiums and 50 per cent. for life insurance on policies ranging from \$100 to \$300. All the brotherhoods have a religious basis, the Catholic societies having a close relation with the ancient church and having priests as

⁶ Carlos S. Hardy, *What Is Necessary for the Future of Fraternal Societies?* 1906.

leaders. The Slav miners have many societies which bear the names of race heroes or saints. Ordinarily these brotherhoods give sick benefits and burial money. The Irish and Slav beneficial societies have female members, and among the Protestant orders are auxiliary societies for women, as for example, the Daughters of Rebecca, Daughters of Pocahontas, etc. The Catholic orders are not so numerous and divided as the Protestant, and therefore the Catholic lodges are usually stronger financially. The individualistic spirit among Protestants shows itself in the brotherhoods as well as in the churches, and this fact makes the insurance burden heavier for their members. The financial administration of the lodges rests in the hands of the members and these officials handle considerable sums in the course of a year. The fact that betrayal of trust is very rare speaks well for the character of the workmen. It is impossible to make an exact statement of the income and expenditures of the brotherhoods of the region. In the neighborhood of Olyphant, with 7,800 inhabitants, it is estimated that the monthly payments are about \$1,-886. The monthly dues for each member range from 25 to 60 cents. When a member dies an assessment is levied of \$1 to cover the death benefit. In the cities of the anthracite region the fraternal orders flourish, and it is thought that their yearly receipts are about \$1,250,000. The weekly allowances for sick benefits range from \$4 to \$6 and receipt of benefits ceases with the third or at most the sixth month. After the first half of the period the benefit is reduced one-half and at the end of the limit all claims cease. After that the indigent member has no recourse but poor relief. In case of the death of a member the family receives from \$50 to \$125 death benefit, and the man whose wife dies receives half these rates for burial expenses. Roberts sees distinct advantage in the insurance work of these brotherhoods. The workmen find in the administration of the business of the lodge a great satisfaction. The business sessions call for discussions and explanations, for courteous conduct and tactful speech with much self-control under provocation; and this experience tends to enlarge the scope of thought, awaken the mind, and refine the manners. Independence, self-trust, and foresight are

qualities which elevate the social condition of workingmen, and in no circle of activity are these qualities so developed as in the meetings and business of the brotherhoods.

And yet these lodges reveal various defects. They are so split up into numerous small bodies that much of the energies and funds of the members are wasted. By combination and federation the efficiency of the societies would without doubt be promoted and the basis for security made deeper and broader. If the local risk could be joined with that of a wide area the insurance would rest upon a firmer basis in times of local epidemics.

Ordinarily we find in the statutes of the organizations a provision similar to that formerly a part of the German sickness insurance law, to the effect that insured persons who have become ill through their own fault, as by engaging voluntarily in fights, or by drunkenness, or venereal vice, lose their claim for benefit or at least lose it in part. The society protects itself against fraud by means of examinations made by a physician or by visits of committees. When a man is member of several societies and the sum of benefits is greater than wages he is tempted to simulate sickness in order to have a vacation at the expense of the funds. Some of the brotherhoods avoid this danger by having an understanding between the brotherhoods that the sum of all benefits shall not be greater than wages. This precaution is not always followed and neglect leads to occasional abuses.

The negroes have imitated the whites in the organization of fraternal benefit societies and their methods have peculiarities which correspond to race traits. When we consider the situation of the millions of these "brothers in ebony" who stand in sore need of insurance, without legal organization or protection, we can more easily comprehend the force of an argument for a national movement for compulsory insurance. For the negroes themselves compulsory insurance would be a school of economy and thrift. As a matter of fact many thousand of this race remain without any sort of aid in times of sickness and unemployment and they either become a burden on poor relief or suffer the effects of semi-starvation. As an illustration of certain aspects of

their societies we may cite a picture from a letter from Nashville, Tenn., by Miss Mary Woods, dated July 8, 1906:

There are many brotherhoods among the colored people. The Ladies of Queen Esther's Court on festival occasions wear purple hats and their queen wears a crown. At the funeral services of members there are ceremonies which remind one of children's plays. All the brotherhoods pay sick benefits and death benefits. Of late reports of dishonest treasurers have not been frequent, but formerly they were common, and probably there is still much imposition. The poor things are ignorant and easily fall victims to designing and shrewd men. One impostor was preacher, undertaker, and owner of a vault and cemetery. His enemies say that he had formed a partnership with certain physicians and hospitals by which he gained still more from the unfortunate people over whom he had gained power.⁷

⁷ Much detailed information about the actuarial problems of the fraternal societies is found in the *Consolidated Chart* (published by the *Fraternal Monitor*, Rochester, N. Y.); in *Analyses of Fraternal Societies and Illustrations of Premium Computations*, by Abb Landis, 1906; and in *Friendly Societies and Fraternal Orders*, by Abb Landis.